



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
FRANKLIN COUNTY  
SHERIFF'S SETTLEMENT - 2000 TAXES**

**May 17, 2001**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**SHERIFF'S SETTLEMENT - 2000 TAXES**

**May 17, 2001**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Franklin County Sheriff as of May 17, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Sheriff collected net taxes of \$15,983,471 for the districts for 2000 taxes. Sheriff distributed taxes of \$15,507,020 to the districts for 2000 Taxes.

**Report Comments:**

- The Sheriff Should Have A Written Agreement to Protect Deposits.

**Deposits:**

The depository institution has pledged or provided sufficient collateral and this pledge has been approved by the board of directors or loan committee, but a written agreement securing the Sheriff's interest in the collateral between the depository institution and the County Sheriff has not been executed.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Teresa Azbill Barton, Franklin County Judge/Executive  
Honorable Ted Collins, Franklin County Sheriff  
Members of the Franklin County Fiscal Court

Independent Auditor's Report

We have audited the Franklin County Sheriff's Settlement - 2000 Taxes as of May 17, 2001. This tax settlement is the responsibility of the Franklin County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Franklin County Sheriff's taxes charged, credited, and paid as of May 17, 2001, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2001, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Teresa Azbill Barton, Franklin County Judge/Executive  
Honorable Ted Collins, Franklin County Sheriff  
Members of the Franklin County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Have A Written Agreement to Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 30, 2001



FRANKLIN COUNTY  
TED COLLINS, SHERIFF  
SHERIFF'S SETTLEMENT - 2000 TAXES

May 17, 2001

| <u>Charges</u>   | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u>  |
|--|---------------------|-------------------------------------|---------------------|---------------------|
| Real Estate  | \$ 2,111,386        | \$ 1,970,627                        | \$ 7,236,716        | \$ 2,495,895        |
| Tangible Personal Property   | 244,237             | 224,169                             | 620,321             | 741,701             |
| Intangible Personal Property   |                     |                                     |                     | 343,738             |
| Increased Through Erroneous  |                     |                                     |                     |                     |
| Assessments  | 30                  | 28                                  | 113                 | 944                 |
| Franchise Corporation  | 235,119             | 214,353                             | 596,260             |                     |
| Additional Billings  | 20,310              | 6,117                               | 19,446              | 9,409               |
| Limestone, Sand, and Mineral Reserves                                  | 457                 | 427                                 | 1,692               | 537                 |
| Penalties  | 12,245              | 11,241                              | 39,993              | 13,865              |
| Adjusted to Sheriff's Receipt  | 1,615               | 5,864                               | (11)                | 2,199               |
| Gross Chargeable to Sheriff  | <u>\$ 2,625,399</u> | <u>\$ 2,432,826</u>                 | <u>\$ 8,514,530</u> | <u>\$ 3,608,288</u> |
| <u>Credits</u>   |                     |                                     |                     |                     |
| Exonerations   | \$ 14,234           | \$ 14,059                           | \$ 50,820           | \$ 23,368           |
| Discounts  | 36,673              | 33,976                              | 121,579             | 54,923              |
| Delinquents:   |                     |                                     |                     |                     |
| Real Estate  | 32,523              | 30,354                              | 105,538             | 38,214              |
| Tangible Personal Property   | 1,503               | 1,515                               | 4,455               | 3,762               |
| Intangible Personal Property   |                     |                                     |                     | 2,748               |
| Delinquent - Partial Payment   | 12                  | 11                                  | 34                  | 30                  |
| Uncollected Franchise  | 132,867             | 122,000                             | 372,374             |                     |
| Total Credits  | <u>\$ 217,812</u>   | <u>\$ 201,915</u>                   | <u>\$ 654,800</u>   | <u>\$ 123,045</u>   |
| Net Tax Yield  | \$ 2,407,587        | \$ 2,230,911                        | \$ 7,859,730        | \$ 3,485,243        |
| Less: Commissions *  | 102,610             | 94,814                              | 117,896             | 148,410             |
| Net Taxes Due  | \$ 2,304,977        | \$ 2,136,097                        | \$ 7,741,834        | \$ 3,336,833        |
| Taxes Paid   | 2,304,703           | 2,135,840                           | 7,740,934           | 3,325,543           |
| Refunds (Current and Prior Year)                                       | 274                 | 257                                 | 900                 | 11,290              |
| Due Districts or (Refund Due Sheriff)<br>as of Completion of Fieldwork | <u>\$ 0</u>         | <u>\$ 0</u>                         | <u>\$ 0</u>         | <u>\$ 0</u>         |

\* Commissions:

|          |    |           |
|----------|----|-----------|
| 10% on   | \$ | 10,000    |
| 4.25% on | \$ | 8,113,741 |
| 1.5% on  | \$ | 7,859,730 |

The accompanying notes are an integral part of the financial statement.

FRANKLIN COUNTY  
NOTES TO FINANCIAL STATEMENT

May 17, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

FRANKLIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 17, 2001  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2000, through March 26, 2001.

Note 4. Interest Income

The Franklin County Sheriff earned \$26,850 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Franklin County Sheriff collected \$37,914 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Franklin County Sheriff collected \$980 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

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## COMMENT AND RECOMMENDATION



FRANKLIN COUNTY  
TED COLLINS, SHERIFF  
COMMENT AND RECOMMENDATION

May 17, 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff Should Have A Written Agreement to Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of November 30, 2000, the Sheriff had bank deposits of \$9,134,688; FDIC insurance of \$100,000; and collateral pledged or provided of \$9,417,332. Even though the Sheriff obtained sufficient collateral of \$9,417,332, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

*Sheriff's Response:*

*We received a copy of agreement from State Auditor, which our county attorney has reviewed and approved. Agreement will be signed by appropriate bank officials.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR

The Sheriff Should Require Depository Institutions To Pledge Sufficient Securities As Collateral To Protect Deposits

Comment Has Been Corrected in the Current Year.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Franklin County Sheriff's Settlement - 2000 Taxes as of May 17, 2001, and have issued our report thereon dated August 30, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Franklin County Sheriff's Settlement - 2000 Taxes as of May 17, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Franklin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Have A Written Agreement to Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 30, 2001

